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UNCLAS SECTION 01 OF 03 DAR ES SALAAM 000650

SIPDIS

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SUBJECT: AGOA ELIGIBILITY REVIEW - TANZANIA

REF: STATE 85086

11. This cable is in response to reftel.

12. Country: Tanzania
Current AGOA Status: Eligible

Country Background Summary: Tanzania's population increased to approximately 40.3 million in 2007. 2007 Gross National Income (GNI) was \$16.2 billion and GNI per capita was \$400. Over the past two decades, Tanzania has been transformed from a centrally planned/command economy to a market-oriented system through successful implementation of trade liberalization measures. The government has taken deliberate steps to encourage private sector-led growth through restoration of market forces and less interference in commercial activities. These measures, including privatization of state-owned companies, reduction of tariff and non-tariff barriers and fiscal/monetary reforms, have opened doors for expansion of private sector operations in all spheres of business. Growth averaged 7 percent from 2001-2007; the economy grew 7.1 percent in 2007 and is predicted to grow at 7.8 percent in 12008.

The Government of Tanzania (GOT) is a stable, multiparty democracy. The ruling party (former single party) dominates the executive and legislative branches. Tanzania continues to make progress in strengthening its market-based economy and eliminating barriers to U.S. trade and investment. The GOT pursues economic policies to reduce poverty, to encourage good governance, and to protect worker rights. Despite these efforts, poverty is widespread and corruption remains a major problem. Tanzania's \$698 million Millennium Challenge Compact entered into force in September 2008. The Compact aims to remove constraints to economic growth through targeted investments in Tanzania's transport, energy and water sectors.

Comments on Eligibility Requirements

1I. Market based Economy

Major Strengths Identified

-- Privatization efforts continued. The government replaced the Presidential Parastatal Sector Reform Commission (PSRC) with the Consolidated Holding Corporation (CHC), which has the mandate of finalizing the divestiture of remaining public firms and monitoring and evaluation of the performance of those already privatized.

-- In August 2008, the government announced plans to float an additional 21 percent of its 51 percent stake in the National Microfinance Bank. The remaining 49 percent shares of the bank are owned by a consortium led by the local National Investment Company (NICOL) and Rabobank of the Netherlands.

-- Performance under the International Monetary Fund's Policy

Support Initiative program remains good. All assessment criteria for the third review (quantitative targets for end-December 2007) were met and the structural reform program remains broadly on track.

-- Regional integration remains an important objective. Negotiations within the East African Community (EAC) toward the establishment of a common market have begun, although they have proceeded slowly. The five members of the EAC have signed an interim trade agreement with the EU. In July 2008 the EAC signed a Trade and Investment Framework Agreement (TIFA) with the U.S.

-- Foreign Direct Investment (FDI) into Tanzania has increased, principally in the mining, manufacturing, tourism, construction and transportation sectors. In 2007, the value of FDI increased to USD 600 million from USD 552 million in 2006. The increase was mainly due to investment for expansion in the mining sector.

Major Issues/Problems Identified

-- Poor infrastructure in transport, communications and energy remains a major bottleneck that requires increased and sustained investment. The country is implementing a Medium Term Transport Sector Infrastructure Investment Plan but many areas remain untouched.

-- Businesses and households, particularly in rural areas, lack access to credit.

II. Political Reforms/Rule of Law/Anti-Corruption

Major Strengths Identified

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-- Encouraged by the president's public support of press freedom, the press was able to expose evidence of corruption; widely publicized scandals led to the resignation of four ministers, including the Prime Minister, and the dismissal of the governor of the Bank of Tanzania.

-- The government is following up on the findings of the Public Procurement Regulatory Authority (PPRA), which has stepped up its audits of procurement agencies, with the objective of better enforcing existing regulations. Following the introduction of a reinforced legal framework, the Prevention and Combating of Corruption Bureau (PCCB) is investigating several cases of alleged grand corruption.

-- Efforts to improve credibility and combat inefficiency saw the judiciary create evening shifts for the hearing of additional court cases. The courts also provided alternative sentences to women during the year due to lack of adequate prison facilities.

-- There were several prosecutions of magistrates on counts of corruption between 2007 and 2008.

Major Issues/Problems Identified

-- The national judiciary is formally independent, but the judiciary remained underfunded, corrupt, inefficient, and subject to executive interference, especially in the lower courts.

-- Foreign investors and businesses, including U.S. firms, continue to encounter corruption in Tanzania.

-- Fourteen months of negotiations between the ruling CCM and the opposition CUF failed to resolve the political stalemate in the semi-autonomous archipelago of Zanzibar following the isles' flawed 2005 election.

III. Poverty Reduction

Major Strengths Identified

-- With donor support, Tanzania continues to increase government

investment in health, education, and sectors that stimulate economic growth, especially infrastructure.

Major Issues/Problems Identified

-- GDP per capita remains low; recent economic growth has yet to make significant inroads to reduce rural poverty.

IV. Workers' Rights/Child Labor/Human Rights

Major Strengths Identified

-- The GOT continued to make substantial progress under the auspices of the International Program for the Elimination of Child Labor. Tanzania has focused on combating the worst forms of child labor in agriculture, mining, and prostitution.

-- In April 2008 the government produced guidelines for child labor intervention at the district and community levels.

-- In August 2008 the government completed its Child Labor Report, which was derived from the 2007 Integrated Labor Force Survey Report.

-- The Trade Unions Act of 2000 recognizes workers' freedom of association, the right to bargain collectively, and the right to strike.

-- The Government's human rights record improved during the year 2007/08. Unlike in previous years, there were no reports of killings in police custody.

-- Tanzania increased focused on combating the worst forms of child labor in agriculture, mining, prostitution and domestic labor.

Major Issues/Problems Identified

-- Police officers tortured, threatened, and otherwise mistreated suspected criminals and prisoners during the year.

-- Prison conditions remained harsh and life threatening.

-- Arbitrary arrest and prolonged detention remained problems.

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-- The Constitution prohibits forced or compulsory labor, but does not explicitly prohibit forced labor by children; however, the Employment Ordinance establishes 15 years as minimum age for contractual employment, but does not apply to children working on family farms or herding livestock.

-- Workers in Tanzania have the right to associate, form unions, and bargain collectively and these rights are well respected.

IV. International Terrorism/U.S. National Security

Major Strengths Identified

-- In November 2006, the Tanzanian Parliament passed the Anti-Money Laundering (AML) bill. The AML law established the legal groundwork for Tanzania to create a Financial Intelligence Unit (FIU) and to bolster the GOT's ability to combat financial crime, including counterterrorist financing.

-- Tanzania opened its interagency Counterterrorism Center in 2007. The Center will build the GOT's capacity to prevent and respond to terrorist attacks. In cooperation with the United States, Tanzania worked to identify terrorist networks in order to prevent acts of terrorism.

-- The GOT continued its participation in several multi-year programs to strengthen law enforcement and military capacity, improve aviation and border security, and combat money laundering and terrorist financing.

-- Tanzania cooperated with the United States and complied with its obligations under UN Security Council resolutions.

Major Issues/Problems Identified

None.

ANDR